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# The City of El Paso

# DEBT MANAGEMENT POLICY

# Table of Contents



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# The City of El Paso
# Debt Management Policy

## 1.0 POLICY

It is the policy of the City of El Paso ("City") to develop and maintain a sound debt management program. This policy sets forth the parameters for issuing new debt as well as managing the outstanding debt portfolio, identifying the types and amounts of permissible debt, and maintaining the current bond rating in order to minimize borrowing costs and preserving access to credit. It is the intent of the City to establish this policy to provide guidance to staff to:

- Ensure high quality debt management decisions;
- Ensure that debt management decisions are viewed positively by rating agencies, investment community and citizenry-at-large;
- Ensure support for debt issuances both internally and externally;
- Demonstrate a commitment to long-term financial planning.

## 2.0 SCOPE

The City of El Paso Debt Management Policy (this "Policy") applies to all debt instruments issued by the City regardless of the funding source. Funding sources can be derived from ad valorem taxes, general City revenues, enterprise fund revenues or any other identifiable source of revenue that may be identified for appropriate pledging for bonded indebtedness.

## 3.0 OBJECTIVES

The primary objective of this Policy is to ensure that the City establishes and maintains a solid position with respect to its debt service fund. It is intended to demonstrate that proceeds from long-term debt will not be used for current operations but rather for capital improvements and other long-term assets.

Other objectives include: i) bonds will be paid back within a period not to exceed, and preferably sooner than, the expected useful life of the capital project; ii) decisions will be made based on a number of factors and will be evaluated against long-term goals rather than a short-term fix.; and iii) debt service funds will be managed and invested in accordance with all federal, state and local laws.

## 4.0 STRUCTURE OF DEBT

Debt service will be structured, to the greatest extent possible, to match projected cash flows, minimize the impact of future property tax levies, and maintain a relatively rapid payment of principal. The term of the debt issuance should equal the lesser of the useful life of the asset being financed or the maximum maturity permitted by State law for the obligations issued to finance the acquisition and construction of the asset.

### 4.1 Fixed Interest versus Variable Interest

The City primarily issues fixed rate bonds to protect the City against interest rate risk. The City has the option to issue variable rate bonds and may, if market conditions warrant, consider such a structure. Commercial paper notes, due to their short term maturities (270 days or less), are treated as variable rate obligations.

### 4.2 Other considerations

Bonds are generally issued with an average life of 20 years or less for general obligation bonds, certificates of obligation and revenue bonds but may be greater for some projects such as landfills and major utility facilities whose lives are greater than 20 years. Typically, interest is paid in the first fiscal year after a bond sale, and principal is paid no later than the second fiscal year after the debt is issued. Call provisions for bond issues shall be made as short as possible consistent with the lowest interest cost to the City. The targeted maximum length to call is 10 years. However, the City may opt for a call date longer than 10 years in order to achieve the necessary goals of the particular issue.

## 5.0 FINANCING ALTERNATIVES

It is the City's intent to develop a level of cash and debt funded capital improvement projects that provide the citizens with the desired amount of City services at the lowest cost. The City may use both general obligation bonds or certificates of obligations as deemed appropriate by City staff and approved by Council.

### 5.1 General obligations bonds will be used if the following criteria are met:

- The size of the issuances is $100 million or greater.
- Funds will be used for new and expanded facilities, major repair/renovations to existing facilities, quality-of-life projects, and economic development projects.
- Useful lives of assets acquired will be fifteen (15) years or more; or will extend the useful life of an asset for more than (15) years.
- Voter authorized debt

5.1.1 The total dollar amount of bond election propositions recommended to the voters shall not exceed the City's estimated ability to issue said bonds within a normal 10 year period.

5.1.2 The use of reimbursement resolutions may be used as a cash management tool for general obligation debt funded projects.

5.1.3 Commercial paper can be used as a source of long-term financing for projects that have received voter authorization if City staff has determined that such financing is prudent. It is the policy of the City that the amount of commercial paper outstanding should not exceed 120% of the total investment portfolio of the City. It is the policy of the City that the net amount (total commercial paper less the investment portfolio) of commercial paper outstanding not exceed 25% of the amount of fixed rate debt outstanding. Commercial paper will be converted to refunding bonds when dictated by economic and business conditions.

5.1.4 Quality-of-life projects are defined as projects such as but not limited to the City's parks, museums, zoo, libraries, non-public safety facilities, and entertainment, sports and amusement-type facilities.

5.2 Certificates of Obligation – For Issuances less than $100 million

It is the City's priority to fund the majority of capital projects with voter-approved debt. However, on occasion, it becomes necessary to seek additional financing in order to make necessary infrastructure improvements, renovate existing facilities, and extend the useful life of an asset. Certificates of Obligation ("Cos") will be issued for the following projects/acquisitions:

- Capital asset acquisitions (heavy equipment, vehicles, IT equipment, etc.)
- Rehabilitation and/or extension of the useful life of existing facilities, including existing quality-of-life facilities
- Street resurfacing
- Unpaved Rights of Way
- ADA retrofitting/rehabilitation projects
- Street lighting
- Infrastructure projects (street and draining work)
- Emergency city facilities rehabilitation (storm water draining, etc.)
- Major core service facilities (police, fire, streets, etc.)

Notwithstanding the policy set forth herein and in section 5.1, certificates of obligation or other long-term debt may be considered if the following criteria are met:

- The need for the project is urgent and immediate;
- The project(s) is necessary to prevent an economic loss to the City;

- Source of revenue is specific and can be expected to cover the additional debt;
- The expected debt is the most cost effective financing option available.

In addition, the average maturity of non-voter approved debt shall not exceed the average life of the project financed. Capital items financed with long-term debt shall have a value of at least $5,000 and a life of at least one year.

Reimbursement resolutions may be used for projects funded through certificates of obligations.

5.3 Certificates of Obligations – Enterprise Fund
Certificates of obligation for an enterprise system will be limited to only those projects, which can demonstrate the capability to support the certificate debt either though its own revenues, or another pledged source other than ad valorem taxes and meet the same criteria as outlined in 4.2 above.

5.4 Revenue Bonds
Revenue bonds will be issued for projects that generate revenues that are sufficient to repay the debt. Except where otherwise required by State Statutes, revenue bonds may be issued without voter approval and only in accordance with the laws of Texas.

5.5 Other debt obligations
The use of other debt obligations, permitted by law, including but not limited to public property finance act contractual obligations, pension obligation bonds, tax notes, and lease purchase obligations, will be reviewed on a case-by-case basis. The findings in 5.2 above will be considered for the use of these obligations.

## 6.0 METHODS OF SALE

The City may use competitive sales, negotiated sales, or private placements. When considering the method of sale, the City will take the following conditions into consideration:

a. Financial conditions;
b. Market conditions;
c. Transaction-specific conditions;
d. City-related conditions; and
e. Risks associated with each method.

Additionally, the City considers the following criteria when determining the appropriate method of sale for any debt issuance:

a. Complexity of the Issue – Municipal securities with complex security features require greater marketing and buyer education efforts on the part of the underwriter, to improve the investors' willingness to purchase.

b. Volatility of Bond Yields – If municipal markets are subject to abrupt changes in interest rates, there may be a need to have some flexibility in the timing of the sale to take advantage of positive market changes or to delay a sale in the face of negative market changes.

c. Familiarity of Underwriters with the City's Credit Quality – If underwriters are familiar with the City's credit quality, a lower True Interest Cost ("TIC") may be achieved. Awareness of the credit quality of the City has a direct impact on the TIC an underwriter will bid on an issue. Therefore, where additional information in the form of presale marketing benefits the interest rate, a negotiated sale may be recommended. The City strives to maintain an excellent bond rating. As a result, the Municipal Bond Market is generally familiar with the City's credit quality.

d. Size of the Issue - The City may choose to offer sizable issues as negotiated so that pre-marketing and buyer education efforts may be done to more effectively promote the bond sale.

6.1 Definitions of Methods of Sales

A **Competitive Sale** is when bonds are awarded in a sealed bid sale to an underwriter or syndicate of underwriters that provides the lowest TIC bid. TIC is defined as the rate, which will discount the aggregate amount of debt service payable over the life of the bond issue to its present value on the date of delivery. In today's market, bids primarily are submitted electronically through a secure website.

A **Negotiated sale** is when the City chooses an underwriter or underwriting syndicate, generally from the pool selected through its Request for Qualification ("RFQ") process, that is interested in reoffering a particular series of bonds to investors. The terms of the sale including the size of the underwriter's discount, date of sale, and other factors are negotiated between the two parties. Although the method of sale is termed negotiated, individual components of the sale may be competitively bid. The components are subject to a market analysis and reviewed prior to recommendation by staff. Negotiated sales are more advantageous when there needs to be some flexibility in the sale date or when less conventional bond structures are being sold. Negotiated sales are also often used when the issue is particularly large or if the sale of the debt issuance would be perceived to be more successful with pre-marketing efforts.

A **Private placement** is a sale of debt securities to a limited number of sophisticated investors. The City may engage a placement agent to identify likely investors. A private placement is beneficial when the issue size is small or when the security of the bonds is weak since the private placement permits issuers to sell more risky securities at a higher yield to investors that are familiar with the credit risk.

## 7.0 REFUNDING OF DEBT

7.1 Advance refunding and forward delivery refunding transactions for savings should be considered when the net present value savings as a percentage of the par amount of refunded bonds is at least 3%.

7.2 Current refunding transactions issued for savings should be considered when the net present value savings as a percentage of the par amount of refunded bonds is at least 2%.

7.3 From time to time, the City may also issue refunding debt for purposes of restructuring debt, changing covenants, and/or changing the repayment source of the bonds. Such purpose should be specifically recognized by City Council.

## 8.0 DEBT LIMITS

8.1 The total principal amount of general obligation bonds together with the principal amount of all other outstanding tax-supported indebtedness of the City shall not exceed ten percent of the total assessed valuation of the City's tax rolls.

8.2 Net direct debt service as a percent of Net Operating Revenues should not exceed 20%. (ICMA indicator 21)

## 9.0 MATURITY LEVELS

9.1 The term of debt shall not exceed the expected useful life of the capital asset being financed and in no case shall it exceed 30 years. The average (weighted) general obligation bond maturities shall be kept at or below 15 years.

## 10.0 MANAGEMENT OF DEBT SERVICE FUND

10.1 Interest earnings from general obligation bonds and certificates of obligation shall be used solely to fund direct or related capital expenditures or to service current and future debt payments. Interest earnings will be allocated in accordance with the City's Investment Policy, adopted annually by Council.

10.2 Debt service reserves for tax-supported debt shall not exceed a three-month reserve of the current year total debt service expenditure budget (i.e. Total Annual Debt Service Budget/12 month x 3 months). If this reserve balance is exceeded during any given fiscal year, a plan should be adopted to reduce the size of the reserves as quickly as possible without causing large variances in the ad valorem property tax rate.

10.3 The minimum debt service fund balance should exceed the debt service portion of the largest taxpayer's tax levy for the ensuing fiscal year.

10.4 Debt service reserves for revenue bonds shall be maintained at levels required by controlling bond ordinances.

10.5 The City finances certain capital projects and debt refinancing through the issuance of tax-advantaged debt and it is the City's policy to comply with all applicable laws, regulations and contracts applicable to the debt.

Tax-advantaged bonds (tax-exempt, tax credit and direct pay) are obligations that receive preferential tax treatment under the Internal Revenue Code (the "Code"). Tax-advantaged status remains throughout the life of the debt, but this status may be lost if certain federal laws do not remain satisfied. Failure by the City to comply with these laws at any time during the life of the debt may result in the retroactive and prospective loss of the tax-advantaged status of the debt or the imposition of additional taxes or assessments on the City.

The Finance and Oversight Committee (FAOC), as part of the City Council (the "Committee") is responsible for ensuring the City is in compliance with post-issuance federal tax requirements for the City's tax-advantaged debt. To accomplish this, the Committee delegates to the Chief Financial Officer ("CFO") the primary operating responsibility for establishing and maintaining procedures and guidelines to support compliance and for monitoring compliance on an ongoing basis with post-issuance federal tax requirements for the tax-advantaged debt. The procedures and guidelines shall describe the processes used to ensure compliance with applicable laws, regulations and contracts, and identify the positions and individuals responsible for these processes. The procedures and guidelines should be consistent with those items referenced in Appendix 1 IRS Form 5091 Voluntary Compliance for Tax-Exempt and Tax Credit Bonds. To aid in ensuring compliance, staff will utilize the post issuance compliance checklist developed jointly by the National Association of Bond Lawyers ("NABL") and the Government Finance Officers Association ("GFOA") in Appendix 2. The CFO shall also be aware of options for voluntary corrections for failure to comply with post-issuance compliance requirements (such as remedial actions under Tax Exempt Bonds Voluntary Closing Agreement Program (TEB VCAP)) and shall take corrective action when necessary, and appropriate as referenced, in Appendix 1.

10.6 The City does not use derivatives in any debt or investment activities.

## 11.0 DEBT SERVICE TAX RATE

Council shall adopt the necessary debt service tax rate up to a maximum amount of thirty (30 ¢) per $100 valuation in order to meet debt service principal, interest and fees payments, net of transfers, for each particular fiscal/budget year, subject to any reserve availability as outlined in 8.2 above.

## 12.0 RATINGS

12.1 The City will strive to maintain good relationships with bond rating agencies as well as disclose financial reports and information to these agencies and to the public.

12.2 The City will obtain a rating from at least one nationally recognized bond-rating agency on all issues being sold on the public market.

12.3 Timely disclosure of annual financial information including other information will be provided to the rating agencies. The Comprehensive Annual Financial Report (CAFR) will be prepared by management and attested to by an outside nationally recognized audit firm.

12.4 Timely disclosure of any pertinent financial information that could potentially affect the City's credit rating will also be presented to the ratings agencies required information repositories, bond insurance companies insuring City debt and commercial banks providing liquidity support for commercial paper programs.

## 13.0 SELECTION OF FINANCIAL ADVISORS

13.1 In order to obtain the best price, achieve a high level of quality service, promote fairness and objectivity, and allow the City to compare Financial Advisors, the City will prepare a RFQ to select a Financial Advisor at least once every five years. City staff should review ongoing contracts periodically to ensure that the selected Financial Advisor is performing at a satisfactory level.

13.2 The Financial Advisor selected will provide financial advisory services related to the authorization and issuance of debt instruments or other securities as well as debt management planning services as requested by the City.

13.3 Any RFQ developed should provide, at a minimum, a clear and concise description of the scope of work, specify the length of the contract and indicate whether joint proposals with other firms are acceptable; include objective selection criteria and explain how proposals will be evaluated; and require all fee structures to be presented in a standard and clear format. In addition, the RFQ should include questions that distinguish firms' qualifications and experience, including relevant experience of the firm and the particular individuals assigned to the issuer.

## 14.0 SELECTION OF UNDERWRITERS

14.1 In order to obtain the best price, achieve a high level of quality service, promote fairness and objectivity, and allow the City to compare underwriters, the City will prepare a RFQ to select underwriters at least once every five years. Although the City anticipates using this RFQ as the basis for selecting Underwriters for all future debt issuances for general obligation, contractual obligations, revenue bonds and other such type debt, the City may solicit underwriters for certain future debt instruments that it determines require additional consideration or specialty such as pension obligation debt issuances.

14.2 A list of selected underwriters will be developed from responses to the RFQ process, which shall be provided to Council for its approval. This list will be used on a rotation basis from which to select underwriters for a particular transaction. City staff should review ongoing contracts periodically to ensure that the selected underwriter(s) are performing at a satisfactory level.

14.3 Any RFQ developed should provide, at a minimum, a clear and concise description of the scope of work, specify the length of the contract and indicate whether joint proposals with other firms are acceptable; include objective selection criteria and explain how proposals will be evaluated; and require all fee structures to be presented in a standard and clear format. In addition, the RFQ should include questions related distinguish firms' qualifications and experience, including relevant experience of the firm and the particular individuals assigned to the issuer.

## 15.0 SELECTION OF BOND COUNSEL

15.1 The CFO shall coordinate with the City Attorney on the recommendation of bond counsel for debt issues. The recommendation will be submitted to the City Manager and upon approval by the City Manager, will then be forwarded to the City Council for final authorization and approval. Bond counsel will have comprehensive municipal debt knowledge and experience. When the bond counsel has been selected, they are responsible for providing an opinion to investors in two specific areas. The bond counsel must opine to investors that the securities are valid and legally binding obligations of the issuer. Then, the bond counsel will opine on whether the interest on the bonds is exempt from federal taxation.

The bond counsel also prepares all bond documents necessary to execute the bond issuance. The bond counsel is responsible for coordinating with the City Attorney's office, City Clerk's office, and the Chief Financial Officer's Portfolio, as well as the City's financial advisor, to ensure that all tasks associated with the bond issuance are completed within prescribed timeframes. To the extent required by State law, bond counsel is responsible for coordinating with the Office of the Attorney General and the Office of the Comptroller of Public Accounts of the State of Texas matters relating to the approval of City obligations. The City values continuity in maintaining a relationship with bond counsel due to the complexity of issues and laws related in issuing municipal bonds. However, the City reserves the right to conduct a formal request for qualifications process.

## 16.0 DEBT MANAGEMENT POLICY REVIEW

This Debt Management Policy shall be reviewed at least bi-annually by the City Council and any modifications must be adopted by Council.

## 17.0 Appendix 1 – Voluntary Compliance for Tax-Exempt and Tax Credit Bonds

## 18.0 Post Issuance Compliance Checklist